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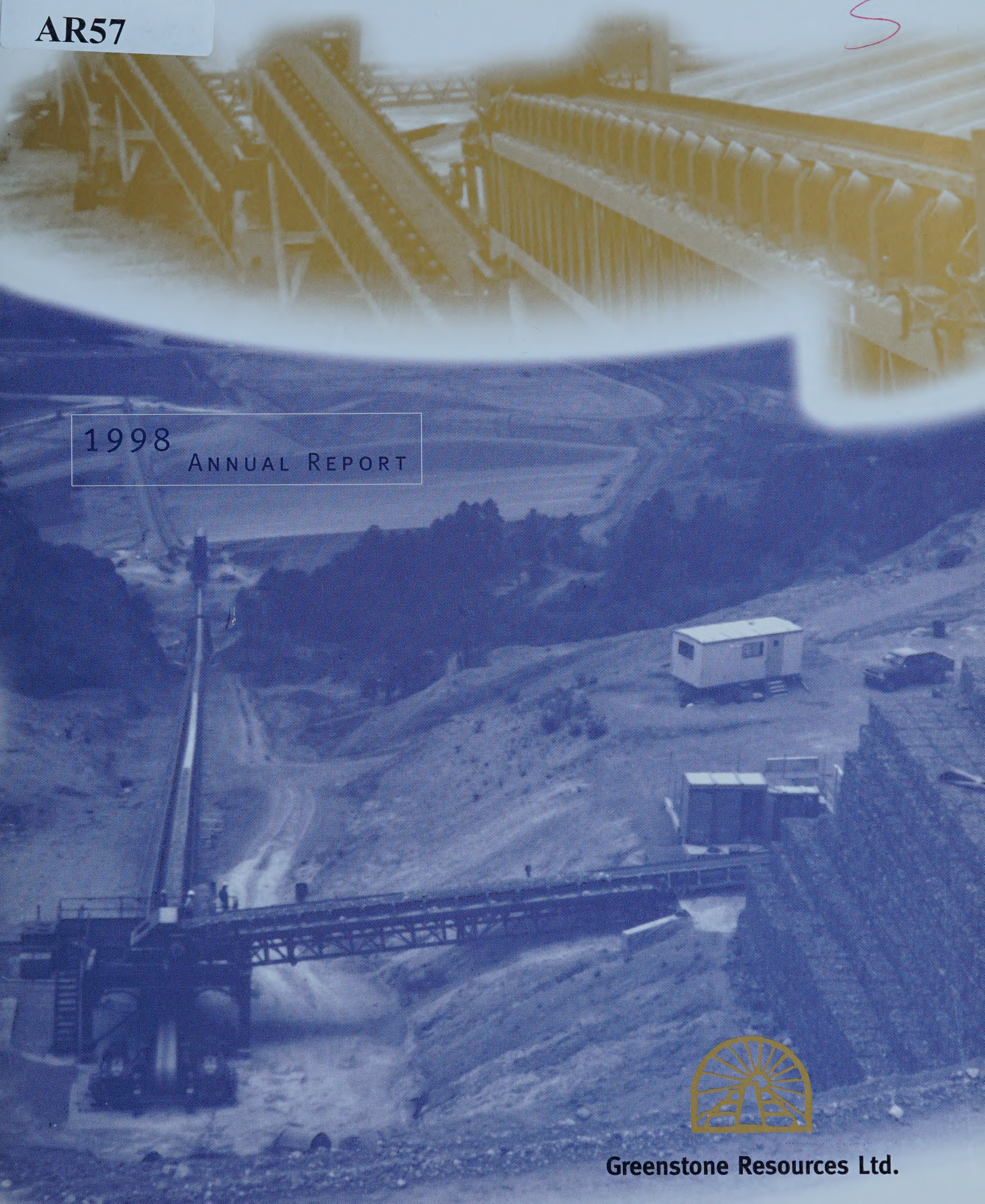

1998 Annual Report

Greenstone Resources Ltd.

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REPORT TO OUR SHAREHOLDERS

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Greenstone has concentrated its growth oriented activities in Central America, aggressively developing a portfolio of quality operating gold mines and exploration properties. For the Company, the transition from an exploration company to a producing company has been a difficult process with missed production goals and commissioning milestones. Only with the sheer determination and unwavering commitment of the employees has Greenstone been able to recognize the first fruits of this labor. In spite of a broad range of difficulties, during 1998 the Company produced a total of 113,823 ounces of gold, compared to 63,563 ounces in 1997, an increase of 79%. Exploration and development drilling expanded proven and probable mineable reserves at Greenstone's two principal assets: at the Cerro Mojon mine to a total of 14.1 million tonnes with an average grade of 2.22 grams of gold per tonne containing a total of 1.01 million ounces, and at the San Andres mine to 20.5 million tonnes with an average grade of 1.10 grams of gold per tonne containing a total of 0.726 million ounces. Contained gold increased more than 10% at each property when reserves are calculated using a gold price of $300 per ounce.

SIGNIFICANT ACHIEVEMENTS AND DISAPPOINTMENTS

Throughout 1998, Greenstone's focus was to make the San Andres and Cerro Mojon mines world-class income-generating mining assets. The aim was to complete the commissioning of planned expansions at Cerro Mojon followed by the completion of construction and commercial production at San Andres. As the projects progressed towards completion, the Company's cash resources shrank, creating a condition of severely constrained liquidity at year's end, with delayed production from the two principal operations.

At Cerro Mojon, Phase II capacity was commissioned in the first quarter of 1998 with Phase III commissioning planned by 1998's year end. Due to necessary engineering and operational modifications, plus extreme weather conditions, the commissioning of Phase III capacity did not occur until late January 1999. At San Andres, engineering changes and Hurricane Mitch delayed the commencement of gold production until March 1999. Due to these delays, 1998 production fell short of expectations, but there was never any doubt of the quality of these properties. With these problems now overcome and the mines in operation, the focus will be on increasing gold production, making these mines highly profitable, long-life operations. Gold production will increase systematically throughout the year at Cerro Mojon and San Andres. Targeted combined production from these two operations is 219,000 ounces of gold in 1999 with a combined average cash cost of $183 per ounce, exiting the year at an anticipated rate of more than 300,000 ounces of gold annually.

To improve 1999 cash flow, on February 9, 1999 the Company elected to suspend mining and crushing at the Santa Rosa mine in Panama. Gold production will continue from leaching the existing 6.2 million tonnes of ore on the pads. This decision should enable the Santa Rosa operation to generate a positive cash flow at current gold prices, conserving remaining resources until the price of gold increases to suitable levels to allow resumption of mining operations. An exploration review will also continue at the mine, defining resource expansion potential based on a new and evolving geologic interpretation.

At the Bonanza mine, exploration activities in 1998 failed to find a bulk mineable precious metal resource therefore leading to a decision to divest the mine and Hemco properties. The Company is presently negotiating an agreement to sell its Nicaraguan subsidiary that owns the Bonanza mine and Hemco concessions, reserving certain future back-in rights. The sale eliminates the significant cash drain needed to maintain the concessions, while at the same time providing the Company the ability to participate in future commercial projects on the concessions.

MAXIMIZING SHAREHOLDER VALUE

In the fall of 1998, with Greenstone's share price performing poorly, the Company received expressions of interest from various parties; their intentions being to explore a possible merger, takeover, or some other form of strategic investment in the Company. It was at this time that Greenstone's Board of Directors formed a Special Committee with the mandate to evaluate strategic alternatives to enhance shareholder value. After evaluating its options, the Board engaged Nesbitt Burns, Inc. as its financial advisor to manage the strategic process and provide advice including addressing the Company's growing liquidity concerns. On their advice, the Company started an auction process that did not prove to be successful, as no serious bids materialized.

While the strategic process continued, the Board and management also planned and executed a self-sustaining strategy based on the Company's two principal assets at Cerro Mojon and San Andres. The strategy included a significant revision of operating philosophy within the organization with emphasis on: transition to a production based, growth oriented company; operations on a pay-as-you-go basis; streamlined administration with significant reductions in overhead; and maximum cash flow from existing operations.

Within the context of the current gold market and the Company's focus on maximizing cash flow from existing operations, capital spending will continue at minimum

acceptable levels needed to sustain operations, and no exploration expenditures are budgeted for 1999. Exploration will be reconsidered on an opportunistic basis when cash becomes available.

The self-sustaining strategy also addressed the Company's liquidity constraints. This was accomplished through a Cdn$12,960,000 equity financing which closed on January 7, 1999 and an additional Cdn$1,920,000 when the over-allotment option was subsequently exercised. Greenstone also recorded a write down of $115,032,000 relating to the Bonanza mine and Hemco concessions, the Santa Rosa mine, and other investments.

The self-sustaining strategy is working. Cerro Mojon and San Andres gold production is increasing. Production goals are being met or exceeded. Operating cash balances and liquidity are improving, reducing dependence on existing credit facilities. Overhead costs have been reduced by more than 35%. And, perhaps most significantly, employee morale is dramatically improving.

MANAGEMENT CHANGES

In February 1999, Rudi P. Fronk stepped down as President and CEO, and he and James S. Anthony resigned as directors. A. Frederick Banfield followed with his resignation from the Board in March. Each of these individuals have shown their dedication to the Company and the shareholders. The Board acknowledges their contributions and wishes each success in their future endeavors.

New to Greenstone are Donald E. Ranta as a Director and Allen S. Gordon as Interim-Chairman, President and CEO. Allen Gordon has nearly 25 years of senior engineering and operational experience with a strong emphasis in heap leaching. Most recently, he was a founding partner and Managing Director of Union Hill Partners, a global mining investment management group. Prior to that he was Senior Vice President, Technical Services and Project Development of Kinross Gold Corporation. From 1983 to 1991 Mr. Gordon held various senior operating positions with privately-held Western States Minerals Corporation, one of the pioneers in heap leaching technologies. Mr. Gordon holds a Masters Degree in Mining Engineering and a degree in Geology, both from the University of Idaho, College of Mines.

Donald Ranta, Ph.D., is a Managing Director and founding partner of Union Hill. Previously, he was Vice President of Worldwide Exploration for Echo Bay Mines, Manager of North American Exploration for Phelps Dodge Mining, and also served with Amax Exploration, Climax Molybdenum, Gulf Mineral Resources and Kennecott Copper. Dr. Ranta received his Ph.D. in Geological Engineering from the Colorado School of Mines. He is the incoming President of the Society for Mining, Metallurgy, and Exploration, the largest professional mining organization in the world. While still new to the Company, both Don and Allen have been quick to make their presence felt.

This year, more than ever before, there will be greater pressure on Greenstone to prove itself as a producer. The Company has made the difficult decisions needed for the future. The management and employees of the Company are focused on getting the job done. While gold prices continue to show no sign of improvement, Greenstone has developed projects with low cash costs per ounce. With the production growth expected from its mines, Greenstone will provide significant cash flow per share even at today's gold price. The future looks bright and your Board and management are committed to completing what they started – enhancing shareholder value.

Dated this 30th day of April, 1999

On behalf of the Board,

R. Neil Raymond
Director

Hugh R. Snyder
Director

Entering 1998 Greenstone's key operational objective was to demonstrate that it could successfully commission its projects and meet its production targets. To accomplish this objective, the Company set four goals for the year: (1) complete and commission Phase II and III capacities at Cerro Mojon; (2) complete construction and achieve commercial production at San Andres; (3) complete the rehabilitation of the Bonanza mine; and (4) achieve its 1998 budgeted gold production. Although significant progress was made on these goals, necessary implementation of unforeseen engineering and operational modifications plus extreme weather patterns, including October's Hurricane Mitch, resulted in the Company not achieving its goals.

Notwithstanding, during 1998 Greenstone produced 113,823 ounces of gold at cash operating costs of $288 per ounce, representing an increase in gold production of 79% over 1997, and a 12% reduction in cash operating costs per ounce.

Entering 1999, Greenstone's operating team remained focused on completing final commissioning of full capacity at Cerro Mojon, and initial commissioning of San Andres, which goals were achieved in January and March, respectively.

CERRO MOJON, NICARAGUA

With the successful commissioning of Phase II capacity at the Cerro Mojon mine during the first quarter of 1998, the project's focus immediately switched to completing the installation of Phase III, defined as annual throughput capacity of 2.8 million tonnes of ore. Knowledge gained during the start-up of Phase I and II capacities, however, required unplanned operational and engineering changes in order to successfully complete Phase III installation.

The first set of modifications resulted from learning that the rinse and detoxification segments of the on-off leaching cycle required 45 days less than previously budgeted, thereby requiring the simultaneous leaching of six cells versus three cells as originally designed. To accommodate this change, an intermediate leaching system was designed and implemented during the second quarter of 1998. This new system now takes the gold-bearing solution from the oldest three cells under leach, injects new cyanide, and distributes this "intermediate" solution back to the three newest cells under leach. The upgraded gold-bearing solution which flows from these three newest cells is then directed to the ADR plant for final gold recovery.

The next set of operational modifications focused on improving the metallurgical performance of the ore placed under leach. Initially, ore was being stacked on the pads at an eight metre lift height. The high clay content of the ore, however, combined with the amount of rain being introduced into the ore, resulted in the integrity of the leach pile degrading over time, and settling by up to two metres in height. This phenomenon had a negative impact on metallurgical performance of the ore by extending the leach cycle time and reducing the overall gold recovery rate. To compensate, ore stacking was reduced to six metre lifts. Additionally, the Company's metallurgical engineers looked for ways to improve the stability of the heaps by making a stronger agglomerate. After extensive test work, a new agglomerate formula was introduced which improved gold recovery rates and reduced leach cycle times. By the end of 1998 gold recoveries for the newest heaps were in excess of 70% after the 60 day leach cycle.

Entering the 4th quarter of 1998, work was progressing on the final task required to complete Phase III capacity, the installation and implementation of the new jaw crusher and final modifications to the conveyance system. Unfortunately, due to the effects of Hurricane Mitch which passed through Nicaragua and Honduras during late October, this task was not completed before the end of the year. The new jaw crusher was operational by late January 1999.

During 1998, 1.6 million tonnes of ore grading 1.8 grams of gold per tonne were processed at Cerro Mojon resulting in 50,451 ounces of gold produced at a cash operating cost of $281 per ounce. The focus for 1999 will be to exit the year at an annualized production rate ranging from 130,000 to 140,000 ounces of gold. During 1999 Cerro Mojon is budgeted to produce approximately 102,000 ounces of gold at a cash operating cost of $220 per ounce. Work is now in progress to incorporate the new reserve model into both short and long-term mine planning, including final mine fleet determination, thus ensuring a long and profitable project life, even at today's gold price.

SAN ANDRES, HONDURAS

Construction and weather related delays at the 4.5 million tonne per year operation at San Andres have put the project approximately six months behind schedule. These delays were a result of engineering changes to the down-hill conveyor and related systems, delays in steel fabrication and deliveries and the effects of Hurricane Mitch. The mine, which had its first gold pour in March 1999 is expected to achieve commercial production during the second quarter of 1999.

The process ponds and leach pad area, capable of initially holding up to 25 million tonnes of ore, were completed early in 1998. The leach pad has been designed and constructed to enable expansion to 80 million tonnes. Integrated into the final design was an intermediate leaching system which will allow for maximum flexibility for solution flow and solution grade to the Absorption-Desorption-Recovery

plant. Installation of the ADR plant was completed by year-end. The plant is designed to handle 4,400 gallons of solution per minute through two trains of carbon columns.

Construction of the new townsite was completed at mid-year, and by July, more than 100 families had moved from their old homes on Water Tank Hill. Mining activities at the Water Tank Hill zone commenced during the third quarter by the on-site contractor. By year-end, approximately 35,000 tonnes of ore had been mined and stockpiled, while waiting for the start-up of the crushing plant.

The schedule for completion of the crushing and conveying system was impacted by delays associated with structural steel fabrication, unsatisfactory performance by the steel erection contractor, and a re-design of the drive and braking systems for the downhill conveyor lines, CB-02 and CB-03. Further delays resulted from port access being interrupted by the effects of Hurricane Mitch. By the end of 1998, the drives and brakes for conveyor lines CB-02 and CB-03 had been installed and commissioned.

By the end of December, all major construction activities at San Andres were completed. Primary crushing began in early January 1999, and after a sufficient intermediate stockpile had been established, secondary crushing commenced in late January 1999. Loading of pads began in early February, and leaching activities commenced by the end of February. The initial gold pour at San Andres occurred in March 1999.

During 1999, San Andres is expected to produce 117,000 ounces of gold at a cash operating cost of $120 per ounce. Exiting 1999 the mine is expected to be operating at an annualized rate between 160,000–180,000 ounces of gold.

BONANZA, NICARAGUA

Gold production at Bonanza during 1998 was 14,606 ounces at a cash cost of $283 per ounce. During the year 103,000 tonnes of ore were processed at an average grade of 4.6 grams of gold per tonne.

In early 1998, the effects of El Niño hampered the project. An extended dry season at Bonanza dried up both reservoirs which supply the hydroelectric plants. With significantly reduced available power, operations were curtailed in early May, and were not resumed again until late July when sufficient rainfall had replenished the water supply. During the down-time, underground development activities continued.

During the last five months of 1998, the Bonanza project averaged nearly 450 tonnes per day throughput and approximately 2,000 ounces of gold production per month. Disposition of the property is currently being negotiated.

SANTA ROSA, PANAMA

During 1998 the Santa Rosa project produced 48,766 ounces of gold at $298 per ounce. The project was on track to produce approximately 60,000 ounces for the year, but was not able to recover from operating difficulties incurred during September.

Record rainfalls in August and September, resulted in taxing the project's solution storage capacity. For safety reasons, during the first half of September, cyanide application was stopped while solution levels were brought back to norm. Unfortunately, the heavy rains continued through the balance of the year, and solution grades did not recover to pre-September levels. The 103.3 inches of rain that fell at Santa Rosa from August through December exceeded the average annual rainfall of the previous 10 years by 58%.

A decision was made in early February to suspend mining operations at Santa Rosa. Gold production will continue from leaching the existing 6.9 million tonnes of ore on the pads. The economic recoverability of this gold will be a function of gold price, as well as maintaining the proper reagent level in the heaps. This decision is expected to enable the Santa Rosa operation to generate positive cash flow during 1999 at current gold prices.

RESERVE ESTIMATES AT DECEMBER 31, 1998 @ $300 PER OUNCE OF GOLD* (MINEABLE, PARTIALLY DILUTED, METALLURGICAL RECOVERY NOT APPLIED)									
Deposit	Proven & Probable			Possible			Totals		
	Tonnes (000's)	Grade (g/tonne)	Ounces (000's)	Tonnes (000's)	Grade (g/tonne)	Ounces (000's)	Tonnes (000's)	Grade (g/tonne)	Ounces (000's)
La Libertad									
Cerro Mojon	9,583	2.04	628	**1,320	1.52	64	10,903	1.97	692
Crimea	2,611	2.54	213	—	—	—	2,611	2.54	213
Santa Maria	646	4.60	96	—	—	—	646	4.60	96
Esmeralda	1,278	1.77	73	—	—	—	1,278	1.77	73
SUBTOTAL	14,118	2.22	1,010	1,320	1.52	64	15,438	2.17	1,074
San Andres									
Water Tank Hill	8,391	1.45	390	—	—	—	8,391	1.45	390
Twin Hills	12,110	0.86	336	775	0.80	20	12,885	0.86	356
SUBTOTAL	20,501	1.10	726	775	0.80	20	21,276	1.09	746
TOTALS	34,619	1.56	1,736	2,095	1.25	84	36,714	1.54	1,820

RESOURCE PLUS RESERVE ESTIMATES*** (AT DECEMBER 31, 1998)									
Deposit	Measured & Indicated			Inferred			Totals		
	Tonnes (000's)	Grade g/t Au	Ounces (000's)	Tonnes (000's)	Grade g/t Au	Ounces (000's)	Tonnes (000's)	Grade g/t Au	Ounces (000's)
La Libertad									
Cerro Mojon	25,028	1.79	1,435	6,528	1.72	360	31,556	1.77	1,795
San Juan	2,771	1.37	117	—	—	—	2,771	1.37	117
Los Angeles	—	—	—	29	4.29	4	29	4.29	4
San Andres									
Water Tank Hill	18,167	0.97	528	13,280	0.54	298	31,447	0.79	826
Twin Hills	21,612	0.74	515	29,700	0.62	625	51,312	0.67	1,140
Santa Rosa									
SR	9,038	1.30	378	5,819	1.25	234	14,857	1.28	612
ADLM	3,690	1.98	236	1,166	1.53	57	4,856	1.88	293
HEMCO									
Bonanza	612	9.00	177	899	6.92	200	1,511	7.76	377
Siuna	7,258	2.74	640	—	—	—	7,258	2.74	640
Rosita	—	—	—	6,773	0.80 %Cu 1.45 gpt Ag 12.11	174	6,773	0.80	174
Other				28	3.00	3	28	3.0	3
TOTALS	88,176	1.42	4,026	64,222	0.95	1,955	152,398	1.22	5,981

* Assumed Gold price is $300 per ounce net of silver credit, smelting, refining, transportation, and royalty.

** The Cerro Mojon mine consists of the Cerro Mojon, Crimea, Santa Maria, and Esmeralda deposits.

*** Resource estimates include the corresponding reserves for each mine.

During 1998, Greenstone's principal exploration objectives were to (1) complete the reserve delineation on the previously defined resource within the Cerro Mojon project area; (2) increase reserves at the San Andres project by incorporating resources previously defined at the Twin Hills area; and (3) continue the early-stage exploration activities at priority targets within the Hemco concessions. Most of the exploration effort to attain these objectives was expended during the first half of 1998. The second half of the year concentrated on evaluating the results, leading to new resource and reserve estimates on each of these projects. Compared to previous years, exploration activities during 1999 will be significantly reduced while the Company focuses on completing the operational objectives at its mines.

The December 31, 1998 reserves for the Company were estimated using a $300 per ounce gold price, compared to year-end 1997 reserves reported at $350 gold. A reserve is that part of a resource which can be mined at a profit under specified economic conditions that are generally accepted by the mining industry as reasonable under current market conditions, demonstrated by at least a preliminary feasibility study based on measured and indicated resources only. Gold resources at Greenstone's four operating projects are stated utilizing the identical cut-off grades as used in reserve estimations.

LA LIBERTAD

1998 exploration at La Libertad was focused on completing the sectional drilling along the Cerro Mojon trend, encompassing the Cerro Mojon, Zopilote, Babilonia, Crimea and Santa Elena zones along the northern limit, and the Santa Maria, Populares, La Victoria and Esmeralda zones along the southern limit. This drill campaign was a continuation of the effort that began in October 1997. Total drilling in the Cerro Mojon area now stands at approximately 123,000 metres, nearly half of which was completed during 1998. The 686 reverse circulation and core drill holes within this area formed the basis for a revised geologic model and resource estimation.

The prolonged low gold price environment and the Company's efforts to adapt to this reality have impacted the results of the resource and reserve models. Developing a model for a superior deposit in Nicaragua required the modeling effort to consider more conservative parameters than the Company's earlier concepts. A premium was established on the higher-grade zones of Cerro Mojon, Crimea, Santa Elena and Santa Maria. The current resource model focuses on the higher-grade areas of the 4 kilometre mineralized corridor, but contains the information to address the intervening lower grade areas in the event of a more robust gold price environment. At $300 gold, total resources at La Libertad now stand at 31.6 million tonnes at an average grade of 1.77 grams of gold per tonne, containing 1.8 million ounces of gold.

The revised geologic model and resource estimate at Cerro Mojon provided the impetus for estimating the reserves at the project. The geologic model utilized to estimate resources and reserves at Cerro Mojon was reviewed by two independent consulting firms which concluded that the model and estimates were reasonable and were prepared according to accepted industry standards and practices. The operating cost parameters used to determine economic cut-off grades at Cerro Mojon were also reviewed and accepted by an independent consulting firm.

At $300 gold, proven and probable gold reserves at year-end 1998 increased by 22% at Cerro Mojon, compared to year-end 1997. Proven and probable reserves now stand at 14.1 million tonnes at an average grade of 2.22 grams of gold per tonne for a total of 1.01 million ounces, compared to last year's estimate of 13.9 million tonnes grading 1.86 grams of gold per tonne containing 0.83 million ounces. The increase in tonnes and grade at Cerro Mojon was primarily due to the additional drilling performed during 1998 on the northeast extension of the main deposit.

The exploration activities at Cerro Mojon during 1998 provided the Company with geochemical and geophysical targeting tools to explore other high-potential prospects within the concession. Geologic and geochemical target evaluations were underway on four separate targets at year-end. Significant additional potential remains at La Libertad and the Company expects to continue increasing resources and reserves at the project throughout the next several years.

SAN ANDRES

Exploration at San Andres during 1998 concentrated on completing the resource estimate update at Water Tank Hill and upgrading the resource estimate at Twin Hills. This effort generated several new ideas, the most significant of which is an interpretation that Water Tank Hill and Twin Hills are part of the same mineral system with mineralization continuous between the two areas. Drilling on the property now totals more than 50,000 metres in 431 holes with additional work required to verify the continuity between Water Tank Hill and Twin Hills.

As at Cerro Mojon, deteriorating economic conditions for gold exploitation resulted in large changes in the parameters for resource modeling at San Andres. Consequently, the modeling developed more conservative estimations of resource grade. The changes incorporated into the modeling

process provided lower initial resource risk for the project. At $300 gold, total resources at San Andres now stand at 82.8 million tonnes at an average grade of 0.74 grams of gold per tonne, containing approximately 1.97 million ounces of gold.

The updated geologic model and resource estimate at San Andres led to a new reserve calculation. As with Cerro Mojon, the new geologic model and resource were reviewed by two independent consulting firms who concluded that it was reasonable and was prepared according to accepted industry standards and practices. The operating cost parameters used to determine economic cut-off grades at San Andres were also reviewed and accepted by an independent consulting firm.

At $300 gold, proven and probable gold reserves at year-end 1998 increased by 10% for San Andres compared to year-end 1997, although the overall grade declined. Proven and probable reserves now stand at 20.5 million tonnes at an average grade of 1.10 grams of gold per tonne for a total of 0.726 million ounces compared to last year's estimate of 11.7 million tonnes grading 1.76 grams of gold per tonne containing 0.66 million ounces. The increase in tonnes is due to the inclusion of reserves from the lower-grade Twin Hills zone which contributed to the overall lower grade. Tighter geologic controls imposed on the Water Tank Hill zone also contributed to the reserve grade reduction. However, mine grade during the first two years of the project is still expected to exceed 1.5 grams.

In 1998, significant effort was put forth to delineate the Twin Hills zone. The zone is much larger than the Company's original expectations and drilling to date still has not discovered the limits of the zone. In addition, several new target areas have been identified from 1998 drilling and surface exploration. Completing the exploration on this property will be a priority for Greenstone during the next few years. Expectations are that additional work will rapidly expand the resources and reserves at San Andres.

HEMCO

During 1998 Greenstone expended considerable effort in evaluating the potential of expanding reserves at Bonanza and exploring other opportunities within this large concession. At Bonanza, the mandate was to develop resources that could be exploited in the near term and evaluate the potential for long-term production. Success in the near-term program developed new resources in the Capitan and Neptune structures. However, delineating reserves for the long-term potential would require significant exploration investment and time.

Exploration work on other targets in the concession focused on Rosita. On this target, drill testing identified a 6.8 million tonne inferred resource averaging 0.8 grams of gold per tonne, 1.45% copper and 12.1 grams of silver per tonne. The type of mineralization found at Rosita is similar to many other targets in the concession.

Based on the results of the 1998 program, Greenstone is now in the process of re-evaluating its strategy with respect to the Company's involvement in the HEMCO property.

SANTA ROSA

During 1998, little exploration effort was undertaken at Santa Rosa. With the suspension of mining operations in early 1999, an exploration review of the project is now underway including a program to consider new concepts for the distribution of gold at Santa Rosa. Several ideas have been proposed and are being tested during the first half of 1999.

RESPONSIBLE STEWARDSHIP OF THE ENVIRONMENT, GOOD COMMUNITY RELATIONS AND SAFE WORK PRACTICES MAKE GOOD BUSINESS SENSE AND ENHANCE SHAREHOLDER VALUE. OUR POLICY IS TO BUILD AND OPERATE OUR MINES TO NORTH AMERICAN STANDARDS, TO UNDERTAKE ONGOING RECLAMATION ACTIVITIES TO LEAVE THE MINE SITE IN A STATE THAT IS AS GOOD OR BETTER THAN WHEN WE ARRIVED ON THE SCENE, AND TO WORK CLOSELY WITH LOCAL COMMUNITIES TO ENSURE THAT OUR PRESENCE GENERATES A POSITIVE SOCIAL DIVIDEND.

ENVIRONMENT

At Minas Santa Rosa in Panama, Greenstone continued its aggressive reforestation campaign and planted 25,000 trees during 1998 which brings the total number of trees planted by the Company on the 135 hectares reforestation area to over 150,000. The Company installed an Inco cyanide destruction process to further enhance environmental safety on site. The proven process system will better manage the solutions that enter the leaching system during high rainfall periods.

In Nicaragua at Cerro Mojon, 63,000 trees were planted during the year which was made possible by the construction of a reforestation nursery capable of preparing 70,000 trees for planting each year. Greenstone continued the construction of sedimentation dams for erosion control and to protect the environment downstream of the mine site. The fish placed in rivers in 1997 to revive fish population were monitored to test for any remaining cyanide or mercury which were present in the rivers prior to Greenstone's purchase of the mine. This is only a part of a larger ongoing monitoring program of surface and underground water in the area carried out by the Company. Ongoing reclamation was carried out on areas that have been closed at the mine, such as the old tailings pond and former construction areas near the leach pads.

At Bonanza in Nicaragua, the collection of data for the Environmental Baseline Study was completed. Parameters monitored by trained scientists included flora, fauna, aquatic fauna, soils use, social factors and archaeological resources. Programs for the detailed monitoring of surface and underground water, the locations of water sources and the description of previously mined and affected land were also established. Meteorological monitoring was performed with the state of the art monitoring station installed for the Baseline Study, utilizing a data logger for the collection of data. A contingency berm was constructed around the mill, and tailings handling practices were improved during the year. Reforestation was also continued in the Bonanza, Rosita and Siuna areas, with a total of 44,000 trees being planted. Nurseries were developed that will allow for future annual planting of 50,000 trees in Bonanza alone.

At San Andres in Honduras, the Environmental Impact Study was completed and submitted to the Honduras Department of Environmental Control and Evaluation (DECA). Final approval was received by the Company and the Environmental Permit was issued in December 1998. An Environmental Management Plan was also completed by Greenstone and approved by the same department. An Operational Contingency Plan, an Environmental Monitoring Plan and a Hazardous Waste Management Plan were all completed during 1998 for their submission to the Honduran government in early 1999. Ongoing reclamation was carried out at the mine site on areas where construction activities had previously taken place. These construction areas are almost completely re-vegetated. Almost 30,000 trees were planted during 1998 and a nursery was built with capacity for 30,000 trees annually. Greenstone worked with the community on several environmental projects ranging from a vegetable garden at the school to environmental education programs for residents of the area. The Company and the community are also cooperating to keep their newly constructed town beautiful.

SOCIAL CO-RESPONSIBILITY

Greenstone believes that building relationships with surrounding communities is good business. Our approach is to partner with the community in social programs that improve the quality of life. Providing communities with a direct partnership in decision-making ensures that real needs are met and that local organizations learn to take responsibility for their own development issues.

Throughout the year at Minas Santa Rosa, Greenstone continued to assist the community in small construction projects such as repairing church roofs, widening and improving existing rural aqueducts in and around Cañazas, building a new aqueduct and building a waste disposal area for the local hospital. The Company also made several donations to assist community activities. The largest donations were made to local and international groups to provide lower income residents with medical attention and necessary medications. Greenstone made significant donations to improve the quality of the local schools for the community

children by supplying materials for installing electricity and washrooms in the schools, constructing walkways as well as providing food weekly to the local elementary school.

At Cerro Mojon, Greenstone is cooperating with La Libertad's Municipal Development Committee which provides general assistance and funds to meet the community's needs. The Company also maintains the principal road from La Libertad to Juigalpa which is essential to the town of La Libertad. We provided funds for the local children's school cafeteria and for the community medical center in La Libertad. Special attention was given to the educational sector providing teaching materials for primary and secondary schools. The Company maintained its sponsorship of the local baseball league. During the aftermath of Hurricane Mitch which ravaged Nicaragua near the end of 1998, Greenstone and its employees donated and collected funds to purchase medicines and food for hurricane victims.

At Bonanza, Greenstone continued to assist the local educational institutions by sponsoring scholarships for the best students and supplying toys and learning materials for the local children's educational center. In 1998, the Company again directed significant efforts towards the construction of the Bonanza medical center to be built by the Nicaragua Ministry of Health. As part of the Company's participation in the national campaign to provide relief for hurricane victims, the Company and its workers joined the town's effort to help the population from Waspan and other communities near the Coco River to purchase food. Greenstone also helped establish local baseball, basketball, softball and soccer groups through the donation of equipment and uniforms. We also provided the lumber required to restore the Bonanza baseball stadium.

In the new town of San Andres, the local children not only enjoy the educational facilities constructed by Greenstone, but also receive English language classes, information sessions on environmental protection as well as general health to complement their regular curriculum. Greenstone continues to provide the bus service commenced in 1997 for secondary school children and to provide various textbooks and school supplies to the local elementary schools. The Company has made it a priority to work together with its employees in San Andres towards improving their standard of living. We have initiated a project to train women in the community in dressmaking and tailoring. At the Copan Ruins, a Honduran national park and World Heritage Site and the location of impressive remains of the Mayan culture, Greenstone funded a project in coordination with the Government to protect from water damage and environmental hazards structures discovered in tunnels in the area known as the Plaza of the Jaguars.

HEALTH AND SAFETY

Greenstone places the highest priority on employee health and safety. During 1998, safety training and monitoring programs were strengthened at all of the operations and virtually all managers and supervisors completed a comprehensive course on loss control.

These efforts generated positive results throughout the Company with the most notable improvement being at the Bonanza underground mine which achieved a 58% reduction in lost time accidents and a 31% reduction in reportable incidents. At Bonanza, training programs and seminars were held on safety in the workplace, loss control as well as on the handling, use and transportation of explosives. Seminars in basic first aid and fire prevention were also provided to employees in coordination with the Nicaraguan Red Cross and the Ministry of Health.

At Cerro Mojon, as recognition for its excellence in health and industrial safety, Minera Nicaguense, S.A. received the 1998 National Safety Award from the Nicaraguan Ministry of Labour. This recognition was awarded by a special committee which visited the mine and determined that the Company demonstrated leadership in this area through its observance of strict international standards.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements including the notes thereto were prepared by management and are in accordance with accounting principles generally accepted in Canada.

Financial information presented throughout the Annual Report has likewise been prepared by management and is consistent with the data presented in the consolidated financial statements.

Management is responsible for the integrity and the objectivity of the financial reporting process and maintains the necessary accounting and administrative controls which provide reasonable assurance that transactions are authorized, assets are safeguarded, records are properly maintained and reliable financial information is produced. Management is also responsible for selecting accounting principles and methods that are appropriate to the Company's circumstances, and for making decisions affecting the measurement of transactions in which estimates or judgments are required in determining amounts to be reported.

The Board of Directors is responsible for overseeing management's performance of the above noted responsibilities and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board exercises this responsibility principally through the Audit and Financial Controls Committee, which meets periodically with management to satisfy itself that each party is properly discharging its responsibilities. The Audit and Financial Controls Committee discusses the results of the audit and reviews the annual consolidated financial statements prior to recommending their approval to the Board of Directors.

The consolidated financial statements have been audited by external auditors appointed by the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Allen S. Gordon
President and Chief Executive Officer

Thomas W. Lough
Vice President Finance

AUDITORS' REPORT

To the Shareholders of Greenstone Resources Ltd.:

We have audited the consolidated balance sheets of Greenstone Resources Ltd. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in cash flow for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flow for each of the years in the three year period ended December 31, 1998 in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Ontario
March 12, 1999

Comments by Auditors for Readers on Canada – U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated March 12, 1999 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditor's report when these are adequately disclosed in the financial statements.

KPMG LLP

Chartered Accountants

Toronto, Ontario
March 12 , 1999

CONSOLIDATED BALANCE SHEETS

As at December 31, 1998 and 1997

Expressed in thousands of United States dollars

	1998	1997
ASSETS		
Current assets:		
Cash and short-term investments	$ 533	$ 39,579
Accounts receivable	3,059	1,583
Inventory (Note 4)	8,788	20,257
Prepaids and other	159	1,149
	12,539	62,568
Inventory (Note 4)	188	10,281
Mining interests (Note 5)	159,178	178,759
Deferred financing costs	2,231	2,621
Investments	432	4,028
Other	—	48
	$ 174,568	$ 258,305
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 6)	$ 15,961	$ —
Accounts payable and accrued liabilities	28,376	12,231
Deferred revenue	4,987	4,764
Current portion of long-term debt (Note 7)	3,030	2,299
	52,354	19,294
Long-term debt (Note 7)	70,028	68,974
Future site restoration and reclamation	5,179	87
Deferred revenue	—	4,987
Deferred foreign exchange gain	4,791	1,633
Shareholders' equity:		
Share capital (Note 8)	210,932	202,587
Deficit	(168,716)	(39,257)
	42,216	163,330
	$ 174,568	$ 258,305

Basis of presentation (Note 1)
Commitments and contingencies (Notes 11 & 12)
Subsequent event (Note 13)

Approved on behalf of the Board:

Neil Raymond

R. Neil Raymond
Director

Hugh R. Snyder
Director

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31, 1998, 1997 and 1996

Expressed in thousands of United States dollars except share and per share amounts

	1998	1997	1996
Mining revenue	$ 35,431	$ 20,609	$ 11,075
Production costs	29,991	16,666	8,889
	5,440	3,943	2,186
General administration costs	7,860	5,635	5,767
Depreciation, depletion and amortization	8,325	3,447	1,299
Write-down of mining interests (Note 5)	111,436	—	270
Write-down of investments	3,596	—	—
Foreign exchange loss (gain)	245	(141)	56
Interest expense	2,967	358	49
Other income and expense	470	(1,214)	(764)
	134,899	8,085	6,677
Loss before undernoted items	129,459	4,142	4,491
Provision for income taxes (Note 9)	—	25	120
Minority interest	—	—	(124)
Net loss	$ 129,459	$ 4,167	$ 4,487
Deficit, beginning of year	39,257	35,090	30,603
Deficit, end of year	$ 168,716	$ 39,257	$ 35,090
Loss per share	$1.98	$ 0.07	$ 0.09
Weighted average number of shares outstanding (000s)	65,467	57,091	50,046

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 1998, 1997 and 1996

Expressed in thousands of United States dollars

	1998	1997	1996
Cash provided by (used in):			
OPERATING ACTIVITIES:			
Net loss	$ (129,459)	$ (4,167)	$ (4,487)
Items not affecting cash:			
Depreciation, depletion and amortization	8,325	3,447	1,299
Write-down of mining interests	111,436	—	270
Write-down of investments	3,596	—	—
Deferred gains and costs	(4,804)	9,751	—
Other	438	(29)	(149)
Change in non-cash working capital	6,728	(5,081)	(9,764)
	(3,740)	3,921	(12,831)
INVESTING ACTIVITIES:			
Mining interests, net	(64,841)	(65,629)	(25,108)
Acquisition of subsidiaries, net of cash acquired (Note 3)	—	(3,000)	(27,302)
Acquisition of investments	—	(3,541)	—
	(64,841)	(72,170)	(52,410)
FINANCING ACTIVITIES:			
Short-term borrowings (repayments)	15,961	(1,500)	(7,153)
Increase in long-term debt, net of costs	7,504	64,366	20,732
Repayment of long-term debt	(2,275)	(25,269)	—
Issue of share capital	7,819	47,364	66,845
Issue of warrants	526	5,782	—
Other	—	10	—
	29,535	90,753	80,424
Net cash increase (decrease)	$ (39,046)	$ 22,504	$ 15,183
Cash and short-term investments, beginning of year	39,579	17,075	1,892
Cash and short-term investments, end of year	$ 533	$ 39,579	$ 17,075
Other cash flow information:			
Net interest paid	6,864	3,603	1,345

The accompanying notes are an integral part of these consolidated financial statements.

December 31, 1998, 1997 and 1996

Expressed in United States dollars unless otherwise indicated, tabular amounts in thousands

1. BASIS OF PRESENTATION

The consolidated financial statements of Greenstone Resources Ltd. ("Greenstone" or the "Company") are prepared in accordance with generally accepted accounting principles and on a going concern basis, which assumes that the Company will be able to discharge its liabilities and realize the carrying value of its assets in the normal course of business.

As reflected in the financial statements, the Company has recorded a loss from operations, negative operating cash flow and has a working capital deficiency. The Company's ability to continue as a going concern and discharge its liabilities and realize the carrying value of its assets in the normal course of business depends upon, among other things, being able to raise sufficient additional financing and being able to achieve and maintain future profitable operations from its gold properties.

The Company is pursuing several initiatives to address these issues, including sourcing additional financing, curtailing mining operations at the higher cost Minas Santa Rosa mine, reducing exploration activities and administrative overhead, examining strategic alternatives related to the Bonanza mine which requires ongoing capital investment plus implementing operating improvements at the Cerro Mojon mine. Commencement of operations at the San Andres mine, in March 1999, is expected to enhance cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in Canada, and comply in all material respects with accounting principles generally accepted in the United States except as described in Note 14.

(a) Basis of Consolidation

Greenstone is a Canadian corporation engaged in the mining and extraction of precious metals and the exploration for and acquisition and development of precious metals properties in Central America. Greenstone owns and operates the San Andres gold mine in Honduras, the Cerro Mojon and Bonanza gold mines in Nicaragua, and the Minas Santa Rosa gold mine in Panama. These consolidated financial statements include the accounts of Greenstone and the following wholly owned and substantially wholly owned subsidiaries:

	Country of Incorporation
Greenstone Resources Canada Ltd.	Bermuda
Greenstone de Nicaragua, S.A.	Nicaragua
Minera Nicaraguense, S.A.	Nicaragua
Hemco-Nicaragua, S.A.	Nicaragua
Minas Santa Rosa, S.A.	Panama
Greenstone Minera de Honduras, S.A.	Honduras
Minerales de Copan, S.A. de C.V.	Honduras
Pan American Gold Holdings Ltd.	British Virgin Islands
Greenstone Services, Inc.	U.S.A.

Consolidated operating results for the year ended December 31, 1996 also includes minority interests held by the former minority shareholders of Minera Nicaraguense, S.A. ("MINISA"), which is a subsidiary of Greenstone de Nicaragua, S.A. ("GRENICA"), and Hemco-Nicaragua, S.A. ("Hemco"), a subsidiary of Greenstone Resources Canada Ltd. ("Greenstone Bermuda").

(b) Cash and Short-term Investments

Cash and short-term investments include deposits at certain banks and brokerage houses having original maturities of 90 days or less.

(c) Inventory

Finished product, and in-process inventories are valued at the lower of average production cost and net realizable value. Expenditures capitalized as ore in stockpiles and ore being heap leached include direct labour, material, and mine-site overhead expenses. Materials and supplies are valued at the lower of average cost or replacement value.

(d) Mining Interests

The Company records its interests in mineral projects and areas of geological interest at cost less expense recoveries and receipts from exploration agreements. Exploration costs and development costs, including related financing costs, are deferred until the project to which they relate is placed in production, determined to be uneconomic or abandoned. Deferred costs are amortized over the economic life of the project following commencement of commercial production, or written off if the mineral properties or projects are sold or abandoned.

The Company periodically undertakes a review to evaluate the carrying value of the mining interests based on estimated future cash flows. If it is determined that the net recoverable amount of mining interests is less than its carrying value, a write-down to the net recoverable amount is made with a corresponding charge to earnings. Management's estimates of future cash flows are subject to risks and uncertainties. Therefore, it is reasonably possible that changes could occur which may affect the recoverability of the Company's mining interests.

Mining costs associated with waste rock removal are deferred and recognized in operations based on the average stripping ratio for each ore body. The average stripping ratio is calculated as the tonnes of material estimated to be mined to the tonnes of ore estimated to contain economically recoverable gold.

Fixed assets are recorded at cost and are depreciated on a straight line basis over the lesser of the mine life or the following:

Machinery and equipment	10 years
Buildings	10 years
Automobiles	5 years

Mining interests, including fixed assets, are stated at cost less accumulated depreciation, depletion and provisions for reduction in net recoverable amounts. Major replacements and improvements are capitalized. Repair and maintenance costs are expensed.

(e) Reporting Currency and Translation of Foreign Currencies

The United States dollar is the currency of the primary economic environment in which the Company and its subsidiaries conduct business and is considered the appropriate functional currency for each of the Company's operations. Accordingly, the financial statements of the Company's foreign subsidiaries are translated by the temporal method with translation gains and losses included in earnings.

Long-term monetary items are translated at the rate of exchange in effect at the end of the reporting period. Unrealized translation gains or losses are deferred and included on the balance sheets as a deferred foreign exchange gain or loss and amortized over the life of the monetary items.

(f) Revenue Recognition

Revenue is recognized when title passes to the purchaser. Subsequent adjustments based on final weights and assays are recorded when determined.

(g) Reclamation Costs

Estimated future reclamation costs, including site restoration, where reasonably determinable, are charged against earnings over the estimated life of the mine.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(i) Comparative Figures

The Company has retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the presentation and disclosure of cash flow statements and certain comparative figures have been reclassified to conform to the current financial statement presentation.

3. ACQUISITIONS OF SUBSIDIARIES

Cerro Mojon

Through a series of transactions from 1994 to 1995 Greenstone acquired a 75% interest in the Cerro Mojon project in Nicaragua by spending $5,325,000 on the property, issuing 468,110 Greenstone Common Shares at an ascribed value of $772,000, followed by the purchase of the remaining 25% minority interest in 1996 for $15,475,000. The excess of the minority interest purchase price over the book value was allocated to mining interests. A prior owner has a net smelter royalty on

production from the Cerro Mojon mining area (see Note 11) which the Company has the right, until September 1999, to purchase for $1,750,000 for each 50% of the royalty entitlement.

San Andres

During 1994 and 1995 Greenstone purchased ownership rights for approximately 99% of Compañia Minerales de Copan, S.A. de C.V. ("Copan"), owner of the San Andres project in Honduras, in exchange for $470,377 in cash, 577,300 shares at an ascribed value of $1,041,000, and its Oronorte project in Colombia. During 1996, Greenstone exercised all its rights by making all outstanding option payments, issuing an additional 450,000 Common Shares required to be issued, and satisfying all of its obligations with respect to the exploration and development expenditures, and now owns in excess of 99.99% of Copan. The total cost associated with increasing the Company's shareholdings in Copan during 1996 was $4,589,572 in cash (including a loan of $560,971 which was subsequently converted to shares of Copan) and 450,000 Greenstone Common Shares valued at $2,690,680 which has been allocated to mining interests.

Hemco

In June 1996 the Company acquired an 80% interest in Hemco for $3,500,000 and 450,000 Common Share Purchase Warrants at an ascribed value of $703,348 which warrants were all exercised during 1996. The transaction was accounted for by the purchase method with the results of operations included in these financial statements from the date of acquisition. In September 1996, the Company acquired the remaining 20% of Hemco for consideration of $400,000 and net smelter royalties ("NSR") ranging from 1% to 3% for various project areas (Bonanza, Rosita and Siuna) within the properties acquired.

The net assets of Hemco acquired during 1996 at their assigned values are as follows:

Cash	$ 56
Net working capital	1,418
Mining interests	10,289
Debt assumed	(7,160)
	$ 4,603

On March 13, 1997, the Company exercised its option to reduce the NSR range to 0.5% to 1% at a negotiated cost of $3,000,000. The payment of $3,000,000 was capitalized as an additional cost of the Hemco project in 1997.

4. INVENTORY

	1998	1997
Gold dore	$ 278	$ 914
Stockpiled ore and leach pad inventory	3,468	21,837
Materials and supplies	5,230	7,787
	8,976	30,538
Less: estimated long-term portion of stockpiled ore and leach pad inventory	188	10,281
	$8,788	$20,257

The Company recorded a write-down of the carrying value of the Minas Santa Rosa, S.A. ("MSR") leach pad as a result of a reduction in the estimated recoverable ounces of gold (see to Note 5).

5. MINING INTERESTS

	1998			1997		
	Cost	Accumulated depreciation & amortization	Net	Cost	Accumulated depreciation & amortization	Net
Plant and equipment	$ 71,444	$27,450	$ 43,994	$ 37,862	$4,035	$ 33,827
Mining properties and deferred costs	106,103	27,611	78,492	111,523	1,665	109,858
Construction in progress	36,692	—	36,692	35,074	—	35,074
	$214,239	$55,061	$159,178	$184,459	$5,700	$178,759

A summary of the net book value of mining interests by property is as follows:

	Plant and equipment	Mining properties & deferred costs	Construction in progress	Total 1998	Total 1997
Cerro Mojon, Nicaragua	$41,045	$43,101	$ 716	$ 84,862	$ 77,875
San Andres, Honduras	—	35,391	35,976	71,367	36,049
Santa Rosa, Panama	2,609	—	—	2,609	40,276
Hemco, Nicaragua	—	—	—	—	24,246
Other	340	—	—	340	313
	$43,994	$78,492	$36,692	$159,178	$178,759

At the Cerro Mojon mine in Nicaragua, Phase II commercial production was achieved effective March 1, 1998.

During 1998, interest costs of $6,843,031 (1997 - $6,501,807) were capitalized to mining interests.

As had been previously announced in December 1998, in view of the continuing low gold prices the Company revalued its gold properties using a $300 gold price and determined that a write-down of its carrying values of the Hemco and MSR properties was required. The Company has recorded a write-down of $34.6 million with respect to the carrying value of the Hemco property, and $42.2 million with respect to the carrying value of the MSR mine.

Following its strategic review of these operating properties, the Company ceased all mining operations at MSR and placed the mine on care and maintenance with only leaching of the existing pads continuing. In light of the decision to suspend mining at MSR and further metallurgical analysis following lower than expected recoveries from the MSR leach pads in the first quarter of 1999, the Company has reduced its estimated recoverable gold from the MSR leach pads. The status of the Bonanza mine is currently being evaluated, and the Company has suspended its exploration program on the related Hemco concessions. As a result, the Company has recorded additional provisions of $34.6 million, including provisions for the estimated realizable value of the leach pad inventory and inventory of materials and supplies, cost of severances, mining contract termination costs, and reclamation.

6. SHORT-TERM BORROWINGS

At December 31, 1998, MSR had outstanding an unsecured $1,500,000 (1997 - $nil) revolving loan with a Panamanian bank bearing interest at 12% per annum.

At December 31, 1998, Greenstone Minera de Honduras, S.A. had outstanding an unsecured $1,000,000 (1997 - $nil) line of credit with a Honduran bank bearing interest at 12% per annum.

In July, 1997, Greenstone secured a three-year $25,000,000 revolving line of credit from a syndicate of banks at an interest rate of LIBOR plus 2.25%. The Company's gross gold sale revenues secure the line. On January 7, 1999 this facility was modified to a maximum of $18,662,886 at an interest rate of LIBOR plus 2.75%. At December 31, 1998, $13,460,593 (1997 - $nil) was outstanding under this facility.

7. LONG-TERM DEBT

	1998	1997
Senior unsecured 9% notes (a)	$ 61,122	$ 65,129
Senior unsecured 12.5% notes (b)	4,785	—
CORNAP debt (c)	2,446	2,553
Equipment financings (d)	4,705	3,591
	73,058	71,273
Current portion	3,030	2,299
	$ 70,028	$ 68,974

(a) On February 27, 1997, the Company completed a Cdn.$100,000,000 offering of Senior Unsecured 9% Notes and 2,000,000 associated Common Share Purchase Warrants. The offering consisted of units comprised of a Cdn.$1,000 Note and 20 Warrants. The Notes bear interest at 9% per annum payable semi-annually, mature February 28, 2002, rank equal in right of payment with respect to all existing and future senior indebtedness of Greenstone and cannot be redeemed prior to maturity. The Warrants trade on The Toronto Stock Exchange, are exercisable at Cdn.$15.25 per share and expire on February 28, 2002 (See Note 8(d)).

(b) On September 3, 1998 the Company completed a $5,350,000 offering of five-year Senior Unsecured 12.5% Notes, 5,500,000 Common Shares (see Note 8(b)) and 1,070,000 associated Common Share Purchase Warrants. The Notes bear interest at 12.5% per annum payable semi-annually, mature September 4, 2003 and rank equal in right with the Senior 9% Unsecured Notes. The Warrants are exercisable at Cdn.$2.50 per share and expire September 4, 2003 (see Note 8(d)).

(c) As a result of the privatization in 1992 of the Hemco concessions, Hemco assumed a non-interest bearing liability of $9,000,000 to Corporaciones Nacionales del Sector Publico ("CORNAP"), a governmental body, payable in bi-monthly installments through 2003. While the debt is not by its terms forgivable, the Company has negotiated the forgiveness of the 1998 and 1997 payments as a result of infrastructure improvements made within the Hemco concessions, and will attempt to have all future payments forgiven on a similar basis. Future payments due in 1999 through 2003 aggregate to $3,740,000, which is recorded on the balance sheet at December 31, 1998 at its discounted present value of $2,446,000 based on a discount rate of 12% per annum. If additional amounts due under this government loan are forgiven in the future, such forgiveness will be recorded in earnings.

(d) The Company has financed $1,800,000 of the equipment in Honduras at an interest rate of 12% repayable in equal monthly installments over a 4-year period. Additionally, the Company has equipment financings bearing interest at the 3 month LIBOR rate plus 3.5% which are repayable in quarterly installments. Aggregate principal payments for the equipment financings are as follows:

1999	$ 2,639
2000	$ 1,048
2001	$ 605
2002	$ 413

8. SHARE CAPITAL

(a) Authorized: *Unlimited number of Common Shares*

(b) Issued:

	1998		1997		1996	
Common Shares	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Opening balance	63,492,657	$196,805	55,731,641	$ 146,750	44,173,364	$76,511
Cash	5,500,000	7,326	5,000,000	46,122	5,650,000	51,971
Debenture conversions	—	—	2,181,816	2,737	1,111,110	1,500
Exercise of stock options	242,700	493	579,200	1,196	2,209,667	4,155
Exercise of warrants	—	—	—	—	2,137,500	9,922
Mineral property	—	—	—	—	450,000	2,691
Closing balance	69,235,357	$204,624	63,492,657	$196,805	55,731,641	$146,750
Warrants (see Notes 7(a) &7(b))	—	6,308	—	5,782	—	—
	69,235,357	$210,932	63,492,657	$202,587	55,731,641	$146,750

On September 3, 1998, the Company completed a financing consisting of 5,500,000 Common Shares at Cdn.$2.10 per share and U.S.$5,350,000 of five year 12.5% Senior Unsecured Notes (See Note 7(b)), for net proceeds of Cdn.$18,665,800 (U.S.$12,410,943).

During 1996, $1,500,000 of the Company's outstanding debentures were converted and 1,111,110 Common Shares were issued and in December 1997, all remaining debentures were converted resulting in 2,181,816 additional Common Shares being issued.

In October 1997, the Company completed the sale by private placement of 5,000,000 Common Shares at a price of Cdn.$13.50 per Common Share, for net proceeds of Cdn.$63,853,000 (U.S.$46,122,000).

(c) Stock Options

The Company has in place a Stock Option Plan (the "Plan") pursuant to which it may grant to directors, officers, employees and consultants of the Company or its subsidiaries options to purchase Greenstone Common Shares. All new options granted under the Plan are for a maximum term of five years with 1/3 exercisable on the date of the grant and the remainder vesting equally on the next two anniversaries of the grant. The following chart summarizes the changes in the stock options granted under the Plan. Options outstanding at December 31, 1998 have expiry dates between August, 2000 and May 2005, of which 2,438,600 options are currently vested and exercisable at an average price of Cdn.$7.67 (1997 – 2,331,755 options at Cdn.$7.43; 1996 – 1,911,222 options at Cdn.$5.24).

	1998		1997		1996	
	Number	Average Price (Cdn.$)	Number	Average Price (Cdn.$)	Number	Average Price (Cdn.$)
Opening balance	3,387,133	$ 8.96	2,985,500	$ 6.84	3,469,000	$ 2.88
Granted	707,500	$ 5.47	1,145,000	$12.54	1,254,500	$12.50
Exercised	242,700	$ 3.01	549,200	$ 2.84	1,614,668	$ 2.44
Cancelled/ Expired	668,333	$13.91	194,167	$15.06	123,332	$10.67
Closing balance	3,183,600	$ 7.84	3,387,133	$ 8.96	2,985,500	$ 6.84

In addition to options outstanding under the Plan, the Company has 100,000 options outstanding at a price of Cdn.$4.10 expiring March 29, 2000, originally issued as a financing fee at market value. During 1997, 30,000 options with an exercise price of Cdn.$3.30 were exercised for total proceeds of Cdn.$99,000.

(d) Warrants

In the first quarter of 1996, the Company secured financing with Barclays Bank of Canada ("Barclays"). As part of this arrangement, Barclays received the refining contract on all of MSR's production, which contract had previously been granted to Gerald Metals, Inc. ("Gerald Metals"). Gerald Metals was issued 400,000 warrants as compensation for relinquishing these off-take rights. Each warrant entitled Gerald Metals to purchase one share at Cdn.$6.50 per share, being the market price at the time of the transaction, expiring February 15, 2001. In May 1996, Gerald Metals exercised these warrants in full for proceeds of Cdn.$2,600,000.

In connection with a debt facility arranged in 1996, Gerald Metals was granted 250,000 warrants; each warrant entitling Gerald Metals to purchase one share at Cdn.$14.60 per share, being the market price at the time of the transaction, expiring July 26, 2001. All these warrants were outstanding as at December 31, 1998.

In connection with an additional financing which was being arranged with Barclays during 1996, 50,000 warrants expiring August 19, 2001 were granted to Barclays as a commitment fee. Each warrant allows Barclays to purchase one share at Cdn.$16.55 per share. Due to the Cdn.$100,000,000 financing which closed on February 27, 1997 (see Note 7), all discussions with Barclays relating to additional financing were terminated. All these warrants were outstanding as at December 31, 1998.

In connection with securing the $25,000,000 revolving line of credit, in July 1997, 150,000 warrants were granted to Gerald Metals to purchase Common Shares at a price of Cdn.$13.10 per share and expiring on August 1, 2000. All these warrants were outstanding as at December 31, 1998.

(e) Special Warrant Issues

On October 10, 1996, the Company completed the sale by private placement of 2,200,000 Special Warrants at a price of Cdn.$18.50 per Special Warrant, for net proceeds of approximately Cdn.$38,415,000. Upon the clearance of a final prospectus to qualify the distribution of the 2,200,000 Common Shares issuable upon the exercise of the Special Warrants, each Special Warrant was exercised, without additional payment, for one Greenstone Common Share.

On April 9, 1996, the Company completed the sale by private placement of 3,450,000 Special Warrants at a price of Cdn.$10.00 per Special Warrant, for net proceeds of approximately Cdn.$32,525,000. Upon the clearance of a final prospectus to qualify the distribution of the 3,450,000 Common Shares issuable upon the exercise of the Special Warrants, each Special Warrant was exercised, without additional payment, for one Greenstone Common Share.

(f) Shareholders' Rights Plan

On February 6, 1996 the Company's Board of Directors adopted a Shareholders' Rights Plan intended to provide the Board of Directors of the Company with sufficient time to fully consider any unsolicited takeover bid and to pursue, if appropriate, other alternatives to maximize shareholder value, in circumstances such as a partial bid for control without payment of an appropriate control premium. The rights issuable under the rights plan would permit shareholders to purchase Company shares at half their fair market value if any person acquires or announces an intention to acquire 20% or more of the Company's Common Shares other than with the approval of the Company's Board of Directors, or pursuant to a "Permitted Bid" procedure. Shareholders ratified the rights plan at the annual meeting of shareholders held June 13, 1996 and this plan is to expire at the 1999 shareholders' meeting. The Board of Directors have approved a three year extension of the plan subject to shareholder and regulatory approval at the 1999 annual meeting.

9. INCOME TAXES

At December 31, 1998, the Company and its Canadian subsidiary had federal non-capital loss carry-forwards of approximately $22,098,000 for Canadian income tax purposes, to reduce future taxable income. These non-capital loss carry-forwards expire as follows:

1999	$ 604
2000	764
2001	1,580
2002	1,801
2003	2,564
2004	5,251
2005	9,534
	$ 22,098

In addition, the Company had resource and financing deductions of approximately $7,050,000 available to reduce future taxable income. The potential income tax benefit of approximately $18,600,000 of these non-capital loss carry-forwards and other tax deductions has not been recognized in the financial statements.

10. HEDGING ACTIVITIES

In order to minimize its exposure to lower gold prices, the Company has in the past, and may in the future, hedge its gold production by entering into contracts such as gold loans, forward contracts, spot deferred contracts and put and call options. At December 31, 1998, the Company had in place the following hedges:

Type of Hedge	Quantity	Price
Commodity contracts:		
Sold call options	69,200 ozs	$305
Purchased put options	115,667 ozs	$270
Forward sales	8,709 ozs	$293
Currency contracts:		
Canadian dollar forward purchases	Cdn.$9,000,000	$0.72

All hedge positions mature during 1999. At December 31,1998, the commodity and currency contracts had unrealized gains of $102,000 and losses of $590,000 respectively.

The fair value of cash, short-term investments, accounts receivable, short-term borrowings, accounts payable and accrued liabilities approximate their carrying values given their short term maturities. At December 31, 1998, the fair value of the 9% and 12.5% Senior Unsecured Notes is estimated at $64.5 million, using a discount rate of 12.5%, being the interest rate on the Company's most recent issue of senior unsecured notes, which was completed in September, 1998. There is no quoted market for the 9% and 12.5% Senior Unsecured Notes, and the fair value estimate may not be representative of the market value of these notes. The fair values of other long-term debt is estimated to approximate their carrying values. At December 31, 1998 investments were carried at market value.

11. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under operating lease arrangements. Future lease commitments are as follows:

Year	Amount
1999	$ 376
2000	215
2001	154
2002	54
	$ 799

The Company is subject to a NSR of 1.5% on product from its Santa Rosa mine to the previous co-owner of MSR, an aggregate 1.53% NSR on product from its San Andres mine in Honduras to certain of the former owners of that mine, a 2% NSR on product from its Cerro Mojon concessions to former minority shareholders, and a variable NSR of 0.5% to 1% on product from the Hemco mining lands payable to certain of the former owners of Hemco.

On October 18, 1996, Fischer-Watt and Compañia Minera Oronorte S.A. commenced an action in the Ontario Court (General Division) against Greenstone and Greenstone Bermuda in connection with the sale to Fischer-Watt of Greenstone's Colombian assets, known as the Oronorte project, in late 1995. The plaintiffs claimed damages aggregating approximately $1,500,000 with respect to certain disputed trade payables, unliquidated labor disputes and unliquidated Colombian monetary exchange transactions. Management is of the opinion that the plaintiffs' claims are not justified and Greenstone intends to defend the action vigorously. No further action has been taken on this matter by either of the parties since Greenstone requested further particulars of the claims in 1996.

On February 7, 1997, Greenstone learned that two IMISA shareholders had obtained a decision against IMISA in the Third Civil District Court in Managua (the "District Court") on January 27, 1997, nullifying the sale of the MINISA shares held by IMISA on the grounds that the IMISA board of directors did not have the necessary shareholder authority to approve the transaction. On February 7, 1997, IMISA requested the District Court to permit an appeal of the decision to the Court of Appeals of Managua ("Court of Appeals"). On February 10, 1997, the District Court approved such request and directed the matter to the Court of Appeals, thereby staying the District Court decision until the appeal was decided. On October 25, 1997, the Court of Appeals rendered a final decision confirming Greenstone as the 100% owner of MINISA. The decision specifically voided all of the proceedings commenced by the two dissident shareholders. The deadline for filing an appeal of this decision to the Nicaraguan Supreme Court expired in November 1997, making the Court of Appeals decision final and binding on all parties.

From time to time the Company is involved in various other legal proceedings of a character normal to its business. The Company does not believe that any of these actions will have a material adverse affect on the Company's financial condition.

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations change from time to time, generally becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations. Where estimated costs are reasonably determinable, the Company has recorded a provision for environmental and reclamation obligations based on management's best estimate of such costs. Such estimates are, however, subject to change based on negotiations with regulatory authorities, changes in laws and regulations and as new information becomes available.

12. UNCERTAINTY CAUSED BY THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits to denote a year, which means that in the year 2000, some date-sensitive systems may recognize 2000 as 1900 or some other date. This may result in errors when information using 2000 is processed. There are a number of critical dates, including but not limited to January 1, 2000, September 9,1999 and February 29, 2000, in relation to which date related system errors may occur. If the systems issues related to these critical dates are not addressed, the results may range from minor errors to significant systems failure, which could affect the Company's ability to conduct normal business operations. As a result of the pervasiveness of this issue, it is not possible to be certain that all aspects of the Year 2000 issues affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. SUBSEQUENT EVENT

On January 7, 1999 the Company completed a financing consisting of the sale of 10,800,000 Common Shares at Cdn.$1.20 per Common Share for net proceeds of Cdn.$11,932,000 (U.S.$7,879,000). On February 5, 1999 the Underwriters exercised their over-allotment option and purchased an additional 1,620,000 shares at Cdn.$1.20 per share for net proceeds of Cdn.$1,827,360 (U.S.$1,226,000).

14. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES

The Company follows Canadian generally accepted accounting principles ("GAAP") which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission, as described below.

Foreign currency exchange gains and losses from translation of long-term debt are deferred and amortized over the period to maturity under Canadian GAAP. United States accounting principles require that such amounts be charged to earnings in the year in which they are incurred. Foreign exchange gains and losses incurred on long-term debt in the year which would be included in current earnings in accordance with United States accounting principles, net of amortization of previously deferred amounts, is a gain of $3,158,000 (1997 gain of $1,633,000; 1996 gain of $21,000).

United States Statement of Financial Accounting Standards No. 109 ("SFAS 109"), Accounting for Income Taxes requires the use of the asset and liability method of accounting for income taxes, whereas the deferral method of accounting for income taxes is used under Canadian GAAP. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period in which the change occurs. The adoption of SFAS 109 did not have a material impact on the accompanying financial statements during any of the periods presented.

United States Statement of Accounting Standard No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation, is effective for the Company's financial statements presented in accordance with United States GAAP effective December 15, 1995. SFAS 123 requires that, when an entity issues its equity instruments to non-employees to acquire goods and services, that these transactions be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued. The fair value of warrants issued (see Note 8 (d)) was determined using the Black-Scholes option pricing model with the following assumptions for 1997 and 1996: risk-free rate of 4.7% to 6.92%; dividend yield of nil; and a volatility factor of the expected market price of the Company's Common Shares of 35% to 40%. The amounts so determined would be deferred and amortized over the life of the relevant debt. The effect on earnings in accordance with United States accounting principles would not be significant in 1998 (amortization expense of $1,203,000 in 1997; 1996 - $201,000).

Earnings in accordance with United States accounting principles would have been as follows:

	1998	1997	1996
Net loss	$126,597	$3,737	$4,667
Loss per share	$ 1.93	$ 0.07	$ 0.09

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The effect of the application of United States accounting principles on the balance sheets of the Company, including the cumulative effect of differences between Canadian and United States accounting principles on prior years' financial statements would not be material except that it would result in a decrease in deferred foreign exchange gain of $4,791,000 at December 31, 1998 (1997 - $1,633,000) and a corresponding increase in shareholders' equity.

The change in non-cash working capital and other operating items is comprised of:

	1998	1997	1996
Accounts receivable	$ (1,684)	$ (229)	$ (710)
Inventory, including long term portion	(4,406)	(10,585)	(11,637)
Prepaids and other	911	(918)	51
Accounts payable and accrued liabilities	11,907	6,651	2,532
	$ 6,728	$ (5,081)	$ (9,764)

Beginning in 1996, United States GAAP encourages, but does not require, companies to record compensation costs for stock option plans at their fair value. The Company has chosen to continue to account for stock options using the intrinsic value method prescribed by existing accounting pronouncements effective in the United States, and consistent with its Canadian accounting presentation. The new United States accounting pronouncements do, however, require the disclosure of pro-forma net income and earnings per share information as if the Company had accounted for its employee stock options issued in 1998, 1997 and 1996 under the fair value method. Accordingly, the fair value of these options has been estimated at the dates of grant and/or vesting using a Black-Scholes option pricing model with the following assumptions for these years: risk-free interest rates of 4.5% to 7.4%; dividend yields of nil; volatility factor of the expected market price of the Company's Common Shares of 17.6% to 65%; and an average expected three year life of options. The weighted average grant date fair values of options issued in 1998, 1997 and 1996 were $1,073,000, $3,672,000 and $2,045,000, respectively. For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over three years which approximates the vesting period. For the years ended December 31, 1998, 1997 and 1996, the Company's United States GAAP pro-forma net loss and loss per share are $127,531,000 and $1.95, $5,932,000 and $0.10 and $5,517,000 and $0.11, respectively.

In June 1998, the Financial Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The Company has not assessed the impact SFAS 133 may have in the future.

1998 was a difficult year for Greenstone Resources Ltd. ("Greenstone" or the "Company"). In an environment of low gold prices, the Company continued its transition from an exploration company to an operating company. Cerro Mojon's Phase II capacity was commissioned during the first quarter of 1998 and commercial production commenced as at March 1, 1998. Phase III expansion of Cerro Mojon was completed early in 1999 and construction of the San Andres mine was essentially complete by December 31, 1998. During this period of transition, the Company restructured many of its administrative functions and reduced its exploration activities with the view to reducing future costs. Also, the Company wrote off Minas Santa Rosa, S.A. ("MSR") and Hemco Nicaragua, S.A. ("Hemco") and wrote down the majority of its investments in shares of other companies.

Greenstone's key operating assets, being the Cerro Mojon mine in Nicaragua and the San Andres mine in Honduras, are poised to be the platform from which the Company can resolve the present financial situation and become a production based, growth oriented company.

Despite the construction delays of 1998, the mines are now producing according to expectations. Cerro Mojon is on budget to produce 102,000 ounces of gold in 1999 with San Andres on budget to produce 117,000 ounces of gold during 1999.

The Company recorded a net loss of $129,459,000 or $1.98 per share, which included the write-down of mining interests for $111,436,000 and the write-down of investments for $3,596,000.

The following is a discussion of the material factors influencing the financial condition and operating results of Greenstone for the years ended December 31, 1998, 1997 and 1996. All figures are in U.S. dollars unless otherwise specified.

LIQUIDITY AND CAPITAL RESOURCES

Selected Financial Information

(in thousands of U.S. dollars, except number of shares outstanding)

	December 31, 1998	December 31, 1997	December 31, 1996
Working capital	(39,815)	43,274	19,164
Mining interests	159,178	178,759	113,548
Total assets	174,568	258,305	152,741
Long-term debt	70,028	68,974	24,007
Convertible debentures	—	—	2,726
Shareholders' equity	42,216	163,330	111,660
Shares outstanding	69,235,357	63,492,657	55,731,641

Year ended December 31, 1998

During 1998 the Company recorded a negative operating cash flow of $3,740,000 and at December 31, 1998 had a working capital deficit of $39,815,000. Low gold prices combined with construction delays caused by engineering and operational modifications in addition to extreme weather conditions resulted in lower than expected gold production from all mine sites.

At December 31, 1998, the Company had utilized $13,461,000 of its existing revolving line of credit. In January 1999, this facility was modified to a maximum of $18,663,000 at an interest rate of LIBOR plus 2.75 %. Also utilized was an unsecured $1,500,000 revolving loan at an interest rate of 12% with a Panamanian bank and a $1,000,000 unsecured line of credit at an interest rate of 12% with a Honduran bank. Accounts payable and accrued liabilities increased from $12,231,000 in 1997 to $28,376,000 at the end of 1998.

In September 1998, Greenstone completed a financing consisting of 5.5 million Common Shares priced at Cdn.$2.10 per share and $5,350,000 of five year 12.5% unsecured notes for net proceeds of $12,411,000. Additionally, in January 1999, the Company completed a financing of 10.8 million Common Shares at Cdn.$1.20 per share for net proceeds of Cdn.$11,932,000. In February 1999 the underwriters exercised their over-allotment option and purchased an additional 1,620,000 shares at Cdn.$1.20 per share for net proceeds of Cdn.$1,827,000. During 1998, the Company entered into $3,000,000 of equipment financings and received $493,000 from the exercise of stock options.

Capital expenditures of $64,841,000 related primarily to construction of the San Andres mine and the commissioning of Phase II and Phase III expansions at Cerro Mojon.

All interest payments were made and debt covenants complied with during 1998.

Year ended December 31, 1997

During 1997 the Company issued Cdn.$100 million Senior Unsecured 9% Notes. This Senior Note issue included 2,000,000 associated Common Share Purchase Warrants. The Notes bear interest at 9% per annum payable semi-annually, mature February 28, 2002, rank equally in right of payment with respect to all existing and future indebtedness and cannot be redeemed prior to maturity. The warrants are exercisable at Cdn.$15.25 per share and expire on February 28, 2002. During July 1997, the Company secured a three-year $25 million revolving line of credit from a syndicate of banks. The Company's gross gold sale revenues secure the line.

In 1997 the Company monetized its hedge position to net $10,809,000. This amount is accounted for as deferred revenue and is being recognized as revenue based on the original maturity dates of the hedged instruments monetized. During 1998 and 1997, $4,764,000 and $1,058,000 respectively were recognized. In 1999 the remaining $4,987,000 of the deferred revenues will be recognized in the income statement. In October, 1997 the Company completed a private placement of 5 million Common Shares at a price of Cdn.$ 13.10 per Common Share for proceeds of approximately $64 million. During 1997 Greenstone's subsidiaries entered into equipment financings totaling $2,200,000 bearing interest at an annual rate of the three-month LIBOR plus 3.5%. These financings were supplemented with the proceeds of Cdn.$1,659,000 from the exercise of 579,200 stock options.

Ongoing Requirements

Completion of the Phase III expansion at Cerro Mojon is expected to allow this property to reach its anticipated potential. For all of 1999, production from Cerro Mojon is budgeted to be 102,000 ounces at a cash operating cost of approximately $220 per ounce. Following a ramp up to Phase III production levels during the first and second quarters, 1999 year-end production will have increased to the annualized capacity ranging from 130,000 - 140,000 ounces at a cash operating cost of less than $200 per ounce. Sustaining capital for 1999 is projected to be approximately $2,000,000.

Production from the San Andres mine commenced at the end of March 1999, with 1999 production budgeted to be 117,000 ounces. By year-end production from this property is anticipated to be at an annualized rate between 160,000-180,000 ounces at a cash operating cost of less than $160 per ounce. Capital expenditures, including pre-production costs to commencement of commercial production are anticipated to be $4,800,000.

Cessation of mining and crushing at MSR will result in this operation being cash flow positive during 1999. Reclamation of the site has been estimated at a cost of $2,500,000.

The Bonanza mine and Hemco concessions will continue as a cash drain. Disposition of the property is currently being negotiated.

Although excellent exploration targets have been identified on our owned properties, especially at Cerro Mojon and San Andres, exploration plans have been postponed until cash is available.

By the end of 1999, with a projected annualized production rate of 300,000 ounces per year and an average production cost of less than $180 per ounce, Greenstone will be poised for the future. However, the current working capital deficiency must be addressed. To this end, the Company is currently seeking additional financings, has reduced exploration activities to a minimum, has restructured many of the administrative functions, has implemented operating improvements at Cerro Mojon, has reduced capital commitments at Hemco and is considering disposing of Hemco.

RESULTS OF OPERATIONS

Selected Financial Information
(in thousands of U.S. dollars, except per share amounts)

	Year ended Dec 31, 1998	Year ended Dec 31, 1997	Year ended Dec 31, 1996
Mining revenue	35,431	20,609	11,075
Gross margin	5,440	3,943	2,186
General administrative cost	7,860	5,635	5,767
Depreciation, depletion, & amortization	8,325	3,447	1,299
Write – downs	115,032	—	270
Net loss	(129,459)	4,167	4,487
Loss per share	1.98	0.07	0.09

Year ended December 31, 1998

Revenues from gold sales of 104,083 ounces were $35,431,000. Due to hedging activities the average price realized was $341 per ounce as compared to the average 1998 spot gold price of $294. During the January and February commissioning of Minisa, 3,677 ounces of gold were produced and recorded as a reduction in capital. Reflecting the high cost structure of the Hemco and MSR mines and the start-up phase at Minisa, the overall production costs during 1998, were $288 per ounce.

Hurricane Mitch, which devastated Central America by the end of October of 1998 delayed commissioning of San Andres and the Cerro Mojon Phase III expansion by two months. Mitch also caused one month of lost production and approximately $500,000 of remedial construction at Cerro Mojon. Another extraordinary storm event resulted in one month of lost production at Minas Santa Rosa. The severe drought in the middle of 1998 resulted in a closure of the Bonanza mine for three months.

Reflecting the doubling of production in 1998 as compared to 1997, depreciation, depletion and amortization, which is principally calculated on a units-of-production basis, increased to $8,325,000.

In view of continuing low gold prices the Company revalued its gold properties using a $300 per ounce gold price and

determined that a write-down of its carrying values of the MSR and Hemco properties was required. The Company has recorded a write-down of $34.6 million with respect to the carrying value of the Hemco property, and $42.2 million with respect to the carrying value of the MSR mine.

Following its strategic review of these properties, the Company ceased mining and crushing activities at MSR with only leaching of the existing pads continuing. In light of the decision to suspend mining at MSR and further metallurgical analysis following lower than expected recoveries from the MSR leach pads in the first quarter of 1999, the Company has reduced its estimated recoverable gold from the MSR leach pads. The status of the Bonanza mine is currently being evaluated, and the Company has suspended its exploration program on the related Hemco concessions. As a result the Company has recorded additional provisions of $34.6 million, including provisions for the estimated realizable value of the leach pad inventory and inventory of materials and supplies, cost of severances, mining contract termination costs, and reclamation.

The $3,596,000 write-down of investments in 1998 was as a result of the decrease in the quoted value of the investments.

Interest and administration expenses were higher in 1998 as compared to 1997 primarily as a result of commencement of commercial production at Cerro Mojon. In 1997 and 1996, during construction, certain of these expenditures were capitalized.

Year ended December 31, 1997

Revenues of $20,609,000 were based on the sales of 51,527 ounces of gold. Mining revenues increased in 1997 due to higher gold production at MSR. Due to hedging activities, the average price realized on these ounces was $400 as compared to an average 1997 spot gold price of $331. During 1997, production costs were $323 per ounce. The operating margin was steady year over year though certain operating costs at the Santa Rosa project, which were previously included in inventory, were expensed during 1997 as a cost of production. Interest and other income represents interest earned on the Company surplus funds, which were substantially higher than in previous years.

Year ended December 31, 1996

The 1996 results reflect nine months of operation at the Santa Rosa mine, ten months of operation at La Libertad's old San Juan mine, six months of operations at the Bonanza mine, and nine months of operation at the now closed small-scale mine at San Andres. 1996 mining revenues of $11,075,000 resulted from the sale of 26,560 ounces of gold at an average realized price of $417 per ounce. Production costs for 1996 were $335 per ounce.

RISK MANAGEMENT AND ENVIRONMENTAL COMPLIANCE

Greenstone continually assesses operational risks at each of its projects. Through the Company's high operational standards, employee training and health, safety and environmental programs, the Company reduces the likelihood and severity of such risks. Insurance considered necessary to adequately mitigate these normal business risks is also maintained. Greenstone has elected not to carry political risk insurance. Greenstone has obtained the right to export its production and retained earnings offshore for each of its operating mines.

Fluctuations in Mineral Prices

The liquidity and profitability of Greenstone depend to a large extent upon the price of gold. Gold prices have historically been subject to fluctuations and are affected by numerous factors beyond the Company's control including international economic and political conditions, inflation, supply and demand and activities of Central Banks.

The Company does not currently have a significant gold hedge program in place, but has established credit lines with international bullion trading institutions whereby contracts can be secured on the Company's future gold production.

Political Risk

The Company is currently conducting its exploration and development activities in the Central American countries of Panama, Nicaragua and Honduras. The Company believes that the governments of these countries strongly support the development of their natural resources by foreign operators and currently there are no significant restrictions on currency movement within or from such countries. There is no assurance that political and economic conditions in these countries will not result in their governments adopting different policies respecting foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the Company's ability to continue to mine its properties or to undertake exploration and development activities in respect of its properties in the manner currently contemplated. The possibility that a future government of these countries may adopt substantially different policies, which might extend to expropriation of assets, cannot be ruled out.

Environmental Compliance

The Company's operations are subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its mining, processing and exploration activities are currently carried out in material compliance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

Year 2000

The Year 2000 risks arise from the practice of computers using two digits rather than four to indicate the year portion of the date. As a result, many computer systems could fail and financial and operating data might be impacted.

Due to the nature of Greenstone's business activities, information interaction with third parties is minimal. Greenstone has identified operating and information systems and equipment that needs to be upgraded or replaced. It is anticipated that these will be compliant by the end of the 1999 second quarter. The expenses associated with the Year 2000 risk are not considered to be material and will be charged to income in the period incurred.

The Company cannot be certain that its suppliers are Year 2000 compliant. Therefore during the second half of 1999 plans will be implemented to mitigate the risks of a disruption of key operating supplies.

Forward-looking Information

This annual report includes certain statements that may be deem to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts, included in this Annual Report that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including such matters as future capital expenditures (including the amount and nature thereof), estimates (including estimates of future revenues associated with such reserves and the present value of such future revenues), future production of gold, repayment of debt, business strategies, expansion and growth of the Company's operations and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes appropriate in the circumstances. Such statements are subject to a number of assumptions, risks, and uncertainties, general economic and business conditions, the business opportunities (or lack thereof) that may be presented to and pursued by the Company, ability to obtain necessary. financing, world prices of gold, production delays, changes in law or regulations and other factors, many of which are beyond the control of the Company. Readers are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

TSE – 1998

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	9.85	10.50	5.55	3.20
Low	5.00	5.30	1.70	1.27
Shares Traded	12,492,424	16,540,580	21,815,786	27,656,590

TSE – 1997

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	17.00	14.60	14.25	14.25
Low	13.75	11.60	9.70	4.85
Shares Traded	12,599,776	11,311,778	7,140,870	19,380,549

NASDAQ – 1998

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	6.87	7.37	3.84	2.12
Low	3.50	3.56	1.17	0.78
Shares Traded	1,021,717	1,058,497	3,054,213	8,018,400

NASDAQ – 1997

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	12.64	10.50	10.25	10.37
Low	9.93	8.37	7.12	3.50
Shares Traded	519,814	544,282	368,824	1,411,412

INVESTOR RELATIONS INQUIRIES

Greenstone Resources' financial reports will be sent to shareholders whose shares are registered in their own names. Shareholders whose shares are registered in the name of intermediaries will have copies of financial reports sent to them through these intermediaries. To obtain corporate information on Greenstone Resources Ltd. please visit our website www.greenstone.ca or contact:

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Ms. Tita Gonzalez, Investor Relations Coordinator
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CORPORATE INFORMATION

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Consulting Geologist

Allen S. Gordon
President and Chief Executive Officer

J. Randy Martin 4
Executive Vice President and Chief Operating Officer

Ian G. Park 1
Private Investor

Donald E. Ranta 3,4
Mining Executive

R. Neil Raymond 1,2,3
Financier

Hugh R. Snyder 1,2,4
Mining Executive

OFFICERS

Allen S. Gordon
President and Chief Executive Officer

J. Randy Martin
Executive Vice President and Chief Operating Officer

Julio DiGirolamo, CA
Vice President and Treasurer

Thomas W. Lough
Vice President, Finance

H. Brooke Macdonald
Vice President, Secretary and General Counsel

Thomas E. McGrail
Vice President, Special Projects

William E. Threlkeld
Vice President, Exploration

1. Member of the Audit and Financial Controls Committee
2. Member of the Compensation and Human Resources Committee
3. Member of the Corporate Governance Committee
4. Member of the Health, Safety and Environmental Committee

OFFICES

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